



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.45.1

May 11, 2001
01-PPD-039(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on the \$374,228 Executive Compensation Cap for Contractor Fiscal Year 2001 and Beyond

The FY 1998 Defense Authorization Act established a new executive compensation cap for contractor fiscal year (CFY) 1998 and beyond. The Act directed the Office of Federal Procurement Policy under OMB to set the amount of the cap and revise the cap as warranted. The enclosed *Federal Register* notice (66 FR 22266, dated May 3, 2001) sets the CFY 2001 and beyond cap amount at \$374,228. The \$374,228 cap applies to costs incurred after January 1, 2001, and to all defense and civilian agency contracts covered by the FAR cost principles, including those contracts awarded prior to the enactment of the new cap. The cap amount is to be used for CFY 2001, and subsequent CFYs, until revised by OFPP. Accordingly, for compensation of senior executives covered by the cap, the auditor should allow no more than \$374,228 in the pricing of each executive for CFY 2001 and all subsequent contractor fiscal years. No escalation of the \$374,228 cap for years beyond 2001 is warranted because the language of the *Federal Register* notice states the amount is for all subsequent years until revised. The new cap applies to compensation and senior executives as defined in FAR 31.205-6(p)(2)(i) and (ii), respectively.

Questions regarding this memorandum should be directed through the regions to Ms. Patricia Letzler, Program Manager, Policy Programs Division, at (703) 767-2270.

/signed/ Robert DiMucci
(for)
Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Enclosure:

Federal Register Notice, 66 FR 22266, dated May 3, 2001

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FEDERAL REGISTER

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Notices

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Management and Budget (OMB)

Office of Federal Procurement Policy (OFPP)

Office of Federal Procurement Policy; Determination of Executive
Compensation Benchmark Amount Pursuant to Section 808 of Public Law 105-85

66 FR 22266

DATE: Thursday, May 3, 2001

ACTION: Notice.

SUMMARY: The Office of Management and Budget (OMB) is hereby publishing the attached memorandum to heads of agencies concerning the determination of the maximum "benchmark" compensation that will be allowable under government contracts during contractors' FY 2001-\$374,228. This determination is required to be made pursuant to section 808 of Pub. L. 105-85. It applies equally to both defense and civilian procurement agencies.

FOR FURTHER INFORMATION CONTACT: Richard C. Loeb, Executive Secretary, Cost Accounting Standards Board, OFPP on (202) 395-3254.

Sean O'Keefe,

Deputy Director.

To The Heads of Executive Departments and Agencies

Subject: Determination of Executive Compensation Benchmark Amount Pursuant to Section 808 of Pub. L. 105-85

This memorandum sets forth the "benchmark compensation amount" as required by section 39 of the Office of Federal Procurement Policy (OFPP) Act (*41 U.S.C. 435*), as amended. Under section 39, the "benchmark compensation amount" is "the median amount of the compensation provided for all senior executives of all benchmark corporations for the most recent year for which data is available." The "benchmark compensation amount" established as directed by section 39 limits the allowability of compensation costs under government contracts. The "benchmark compensation amount" does not limit the compensation that an executive may otherwise receive.

Enclosure

Based on a review of commercially available surveys of executive compensation and after consultation with the Director of the Defense Contract Audit Agency, I have determined pursuant to the requirements of section 39 that the benchmark compensation amount for contractor fiscal year 2001 is \$374,228. This benchmark compensation amount is to be used for contractor fiscal year 2001, and subsequent contractor fiscal years, unless and until revised by OMB. This benchmark compensation amount applies to contract costs incurred after January 1, 2001, under covered contracts of both the defense and civilian procurement agencies as specified in section 808 of Pub. L. 105-85.

Questions concerning this memorandum may be addressed to Richard C. Loeb, Executive Secretary, Cost Accounting Standards Board, OFPP, on (202) 395-3254.

Sean O'Keefe,

Deputy Director.

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Enclosure